May 25, 2000

Trust Fund Transfers are Phony Fixes

As Senator Gregg has observed, there are three ways to fix Social Security: raise taxes, cut benefits, and/or increase the system's rate of return. In recent weeks, the only option Vice President Gore *hasn't* rejected is the tax increase.

He has proposed to increase Social Security benefits, not reduce them. And he opposes both means of increasing the system's rate of return — by either creating personally owned and controlled Personal Savings Accounts or, as the Clinton/Gore Administration has proposed, having the government directly invest Social Security surpluses in private industry.

That leaves the Clinton/Gore Administration's plan to transfer general funds into the Social Security trust fund as the only Social Security "reform" the Vice President does endorse. That should be small comfort to today's young workers. Here's why general fund transfers fail to protect Social Security and leave future taxpayers holding the bag.

The Proposal

Both President Clinton and Gore support transferring money from general funds to the Social Security trust fund to keep it solvent through 2054. The amount of the suggested transfers is staggering:

YEAR	AMOUNT
2011	$107 Billion
2012	$125 Billion
2013	$145 Billion
2014	$167 Billion
2015	$191 Billion
2016-44	$216 Billion per Year
TOTAL	**$46 Trillion (Including Interest)**

Yes. That's $46 trillion in total transfers, including interest. These massive subsidies will, according the Vice President, preserve the solvency of the Social Security trust fund through 2054. For the years after 2054, neither the President nor the Vice President has offered a plan.

Impact: Enormous Burden on Taxpayers

Not that it matters. The plan they *have* offered doesn't work. Under current projections, Social Security will have a cash flow deficit in 2015. In that year, payroll taxes will take in $1,035 billion and Social Security will pay benefits of $1,045 billion. The deficit of $10 billion will be made up by selling some of the bonds held by the trust fund. From the trust fund's perspective, everything is fine. It has to pay out $1,045 billion in benefits, and between payroll receipts and bond sales, it has the money to do so.

Yet from the taxpayers' perspective, everything is not fine. The payroll taxes collected by Social Security already eat up 11.0 percent of their taxable wages. Now, they also have to pay for the bonds sold by the Social Security Administration. That's only $10 billion in 2015, but it rises quickly to $182 billion in 2020, and hits $1 trillion by 2036, after which the Social Security system goes broke.

What do general fund transfers accomplish to help ease the burden taxpayers face in coming years? Nothing. Whether the system is financed through payroll taxes or from general funds, the Social Security system is poised to claim an increasing share of future worker income. If we adopted Gore's plan, in 2036 taxpayers would pay $2.7 trillion in payroll taxes to Social Security. Then they would pay an additional $1 trillion to buy bonds to cover the $3.7 trillion in Social Security benefits promised that year. The total tax represents 18 percent of taxable payroll in 2036 — half again more than what workers pay today.

By 2075, that share is one-fifth of taxable payroll — 20 cents of every dollar a worker earns. That 20 cents is taken before the other income taxes, sales taxes, and property taxes are collected to pay for national defense, policing the streets, educating children, and other government services. It also is assessed before the worker can purchase housing, clothing, food, education, and transportation. All for a program that — in many cases — offers the worker less money than he or she contributed.

Expert Reviews

In other words, the one remaining Social Security reform supported by Gore isn't a reform at all. It does nothing. What do the experts have to say about general fund transfers?

> **President Clinton's Budget:** "These [trust fund] balances are available to finance future benefit payments and other trust fund expenditures but only in a bookkeeping sense. These funds are not set up to be pension funds, like the funds of private pension plans. *They do not consist of real economic assets* that can be drawn down in the future to fund benefits. Instead, they are claims on the Treasury that, when redeemed, will have to be financed by raising taxes, borrowing from the public, or reducing benefits or other expenditures. The existence of large trust fund balances, therefore, does not, by itself, have any impact on the Government's ability to pay benefits." [italics added]

Congressional Budget Office: "The Administration's proposals would create transactions between government accounts, but such intra-governmental transfers *do not by themselves increase the resources available to the government.*" [italics added]

Dan Crippen — Director of the Congressional Budget Office: "Too many of us — from the President to members of Congress to my high school classmates — believe the current balances in the Social Security trust funds will help ease the burden on the children of the baby boomers. *That is, unfortunately, not true.*" [italics added]

Henry Aaron — Brookings Institute: "The president proposes to deposit government bonds to defray part of this unfunded liability, thereby putting a call on future general revenues— personal and corporation income taxes — to pay for this unfunded liability." [Testimony before the Ways and Means Committee 2/2/99]

Real Reforms, Not Gimmicks

Al Gore has rejected every real solution to Social Security — except raising payroll taxes — and instead has embraced a budget gimmick. As the Congressional Budget Office has observed, none of the transfers proposed by Gore "would directly affect the government's ability to pay its obligations" [CBO's "An Analysis of the President's Budgetary Proposals for Fiscal Year 2001," p. 64].

Meanwhile, the Vice President has offered retirees even higher benefits in the future. He has proposed increasing the benefits surviving spouses receive while suggesting stay-at-home parents should have income imputed on their Social Security records. There are a number of reasons why Social Security is the wrong tool to address these concerns [See, for example, RPC's "Gore-Mongering Social Security," 5/10/00]. For the purposes of this paper, however, offering to increase benefits to stay-at-home parents and widows/widowers only increases the burden future taxpayers will shoulder.

The only rational approach to Social Security reform is to recognize that, absent Personal Savings Accounts, the benefits paid to seniors in any year will have to be financed by taxpayers working in that year. That reality makes Al Gore's proposals to *increase* Social Security's obligations by several hundred billion dollars all the more ridiculous. Taxpayers from tomorrow may not vote in today's elections, but that doesn't mean we should completely abandon their interests.

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